

Summary of Stakeholder Meeting Notes

Retirees, January 4, 2008

Purpose of Stakeholder Feedback Sessions

The San Jose City Council has authorized the Stakeholder Feedback Process to:

- Provide information about the new GASB (Government Accounting Standard Board) requirements and current/future retiree health cost liabilities, and to
- Solicit ideas from stakeholders about how to respond to the new GASB requirements and how best to pay for and manage future retiree health care costs.

Guiding Principles Offered by Stakeholders

The following are Stakeholders' points of guidance for the decision-making process related to GASB requirements and the City's/employees' current and future retiree health care obligations:

- In numerous comments made throughout the Retiree Feedback Session, retirees made it abundantly and overwhelmingly clear that GASB challenges should not be solved on the back of retirees. The following are representative comments by retirees:
 - "I worked a full career here and I had to give up pay increases and benefit improvements to maintain medical benefits "as is". Now this GASB thing is trying to take away benefits I gave concessions to earn."
 - "The City made a benefit promise to retirees. That promise is a contract. Now the Mayor/Council/City is trying to renege on that contract."
 - "The City has an obligation to retirees. My union traded pay for benefits and they shouldn't be taken away now. It is worthless to look at what other cities are doing. Look at the City's promise—that's what's important."
 - "The City should continue to pay for the lowest-cost plan without new co-pays."
 - "Retirees made their savings plans for retirement based on the City's promises. We based what we expected to pay on that promise. Now the City wants to renege by taking away part of

health care. My original cost was \$100/month, now it's \$700, and our COL increases haven't kept up. Now we'll have to pay \$1,000's we've not budgeted for."

- "We retired under certain assumptions. It is legitimate to expect those promises to be kept."
- "Negative effects on bond ratings is just a scare tactic—the Mayor sees retirees as the “bad guys” and a drain—he wants everything cut on the people who don't have representation."
- "The City underestimated how much retirees were going to cost in the future so it should be the City's obligation to pay for the result of their too-low calculations of future costs."
- "This is an insult---I don't like the “touchy-feely” approach---just let smart people figure this out."
- "Why isn't anyone here from the City Council? Mayor or Mayor's Office? City Manager or her office?"
- "Make sure your notes tell the Mayor and City Council that although most employees can't afford to live in their districts anymore, retirees do live here and WE VOTE."
- "The Mayor and City Council need to confirm retirees are owed these benefits and that they should be left intact."
- "The City and Council don't believe we're really stakeholders. The City doesn't have to deal with us since they can just impose changes---that's why half of the frustrated retirees left at the break. Some of us who have family coverage now may have to drop down to single coverage just to afford the coverage since family coverage already costs one-third of my total pension. The City and Council should say we have a right to be listened to."
- "The City and Council allow negatives about retirees to go to the press and they do nothing to stop the negativism."
- "This is just a change in accounting rules. The City is trying to get out of a commitment. If you have to show a liability on the books, then just show it---don't shift the liability to retirees."
- "This whole process is a disguised effort to create concessions by us—we know the money is there—this is just a way to make retirees look bad."
- "There's no honesty. We're not the liability. This is just an excuse to take away from retirees."
- "This is not our problem. It's the City's problem."
- "The City should have been more prudent in setting aside more money in the past to pay for retiree health care instead of building a new City Hall, lots of firehouses, etc."
- The amounts single retirees and married retirees contribute toward the cost of retiree coverage isn't equitable. Action is needed to make the contributions fairer. One retiree commented she pays \$1,042 for single coverage while families pay zero?? *This possible inequity needs to be researched and reported on (see Open Questions Section below).*

- The need for much more specific information was voiced. The following are specifics that should be discussed in subsequent stakeholder sessions *(these are being added to the Open Questions shown below. Subsequent updates to these Stakeholder Notes will include answers to the following questions)*:
 - What is the amount that would be required to be paid to fund the GASB Actuaries' recommended ARC payment (Annual Required Contribution) for each of the next several years? How much is being paid currently?
 - What are some of the specific solutions under consideration?
 - What specific impact will these costs and solutions have on me personally?
 - What are the possible negative consequences of not adequately funding the ARC amounts?
 - Clarification is needed between the Retirement Boards' statement that the plan is 100% funded and the GASB liability showing there is only 5-10% funding.
 - Are there models of success in other cities?
 - In what ways could the retiree plan be made better than today's plan?
 - Why are health costs increasing two- to three-times faster than inflation and pay?
 - What are the real (fundamental) issues?
 - Did the actuaries take integration with Medicare's benefits into consideration when computing expected liabilities? (Mercury News Letter to the Editor?).
 - What would be the relative impacts of continuing pay-as-you-go compared to full funding of the ARC?
- It would be more appropriate to change the low pay/good benefits promise for newer employees and yet-to-be-hired employees than for longer-service employees and retirees.
- A strongly-held belief by some retirees is that GASB is not a government agency that can impose requirements, so GASB actuaries' recommendations for funding should be disregarded (retirees recognize disclosure is necessary but not necessarily funding).
- The City and City Council should have been telling us about this challenge long ago. But since that can't be changed, for the future, retirees want to be kept fully informed and they want to be a party to the solutions process.
- Labor has said over and over that trust is going to have to be improved before there will be viable solutions to GASB challenges. Retirees repeated that sentiment in their Feedback Session, and they reminded that broken promises don't inspire trust.
- Retirees strongly requested an opportunity to review the Stakeholder Feedback Sessions Report that will be given to the City Council with enough time to add comments. (They added that the two-four weeks usually given for issues review is not enough time).
- The Retirement Boards need to be the main advocates for retirees' interests.

- Access to all information relating to GASB should be made publicly available (including information from the auditors).
- The numbers being talked about are total ARC and total liability numbers. They don't include the fact that some funding has been deposited already, and that current amounts are being paid. When everyone is talking about fully-disclosed and agreed-to numbers, then there could be a better-faith effort to overcome the challenges.

Possible Actions and Ideas Suggested by Stakeholders

The following are Stakeholders' suggestions and ideas about how to respond to GASB requirements and to pay for/manage current and future retiree health care obligations:

- Since the retiree health plan is designed to supplement Medicare, someone needs to pay special attention to people who haven't worked enough quarters to qualify for Medicare.
- The Retirement Boards should have a larger role in solving the GASB challenges.
- Pay particular attention to improving the effectiveness of managed care arrangements, and in general, do a better job of controlling health costs.
- Investigate prevention and wellness. It is worth an investment today to get a long-term payoff in lower costs because of better health.
- Re-Visit the Retirement Boards' contributions/investments strategies to ensure what could otherwise be a reduction in pension contributions would be applied to reduce retiree health care liabilities.
- Find a way to make a large contribution early on and let the investment earnings help offset costs.
- Some coordinating body needs to be created to oversee, exchange information and findings and avoid redundancy in the many separate efforts to deal with GASB challenges.
- Don't overly focus on short-term challenges and fixes. Fix the long-term too.
- Identify all of the reasons costs are increasing two- to three-times faster than inflation and pay (driving forces), and then decide how to overcome each driving force.
- The assumptions used by the actuaries should be reviewed for accuracy and appropriateness.
- Use the City's and the Retirement Boards' considerable lobbying power and clout to control health care costs.
- Look at Palo Alto and Pleasanton as models. They had good earnings years and they applied some of their good earnings results into trust funds to earn interest and to offset retiree health costs.
- Come up with some creative solutions. One retiree mentioned the idea of using e-Bay to dispose of surplus property but not letting the proceeds go back to the General fund. Rather, he suggested using the proceeds of the surplus sales to offset retiree costs.

- Once the Stakeholder Feedback Sessions Report is given to the City Council, a taskforce composed of all stakeholders who are affected (and some external experts) should be convened to assist in the process of evaluation of the ideas.
- Make sure there is a way retirees who don't have computer access can get timely updates on stakeholder Feedback Session Notes and updates, steps to overcome GASB challenges, etc

Open Questions to be Researched

The following are Stakeholders' questions that are currently being researched. As the answers are developed, they will be posted under FAQs on the Retiree Healthcare Website:

1. Investigate whether the single/family contribution amounts paid by retirees are inequitable.
2. What is the GASB actuaries' recommended ARC payment for each of the next several years? How much is being paid currently?
3. Clarification is needed between the Retirement Boards' statement that the plan is 100% funded and the GASB liability showing the plan is 5-10% funded.
4. What are some of the specific solutions under consideration?
5. What specific impact will these costs and solutions have on me personally?
6. What are the possible negative consequences of not adequately funding the ARC amounts?
7. Are there models of success in other cities?
8. In what ways could the retiree plan be made better than today's plan?
9. Why are health costs increasing two- to three-times faster than inflation and pay?
10. What are the real (fundamental) issues?
11. Did the actuaries take integration with Medicare into consideration when computing expected liabilities? (Mercury News Letter to the Editor)
12. What would be the relative impacts of pay-as-you-go vs. full funding of the ARC?

Next Steps

- Continue the Stakeholder Feedback Process
- Post results of each Stakeholder Session on the City's Website
- Incorporate added comments
- Assemble all Feedback Session results into a non-evaluative report of Stakeholder Feedback and ideas for the City Council